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CURRENCY CONTROL AND BUDGET PLANNING IN CHINA

[Comment: This report presents in full Chapter 16, Volume II,
of Cheng-fu Yu-suan Hui-chi Chiao-ch'eng (Textbook of Government
Budget Accounting), by Wang P'ang-hsin and Liu Wen-ch'uan, a text-
book designed for use in technical colleges and intermediate voca-
tional accounting schools in China. Major subjects discussed in
this chapter include the control of cash, the drafting and execution
of currency budget plans, the bank clearance system, current and
clearing accounts, and the different types of clearing instruments.
The numbering of the original text has been retained.]

16-1. Meaning and Components of Currency Control

Currency control is a new system established on the basis of Soviet experi-
ence in the control of socialist currency. Its basic objective is the concen-
tration and effective utilization of state capital dispersed among the many
government organs and enterprises. By actively controlling and regulating the
circulation of currency, it is possible to mobilize the enormous amounts of
capital required for national economic construction and at the same time to pro-
mote the economic accounting and economic planning systems. In the imple-
mentation of currency control, the state bank has been empowered to act as the
exclusive agency for the control of cash and the clearing of payments between
all organs and enterprises. This ensures the proper execution of the state
budget, the implementation of the economic accounting system by enterprises,
and the rational use of the state's financial resources. It also strengthens
the financial system, aids in the exchange of goods, and stimulates national
economic construction.

As provided in the "Regulations on the Implementation of Currency Control,"
the People's Bank of China (hereinafter frequently referred to as "the bank")
is the agency which performs currency control for state-operated enterprises,
government organs, military units, people's organizations, and cooperatives.
In discharging its duties, the bank is empowered to inspect the operations of
these units and is required to report any irregularities to a higher level
for appropriate action.

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The four major components of the currency control system are as follows:

- (1) The control of cash
- (2) The clearance system
- (3) Short-term credit
- (4) The supervision of basic construction investment

Of the four items listed above, short-term credit and supervision of investment in basic construction relate primarily to operating enterprises, and will not be discussed in this text. However, the control of cash and the clearance system are generally applicable to government organs, and will be discussed in the following sections of this chapter.

16-2. Control of Cash

Under the system for the control of cash (including drafts and bills,) the bank serves as the general receiving and disbursing agent for government organs. All treasury and budgetary funds allocated to government organs and all operating funds allocated to or collected by business enterprises are handled by bank transfers and are deposited in the bank. (See Section 15-13 above and Section 16-3 below). All disbursements in accordance with the budget and financial plans are paid out on order by the bank in the form of cash or account transfers. Thus the receipt and expenditure of public funds is controlled not by the organs themselves but by the bank as a central agency.

The cash control system and the treasury system discussed in Chapter XV function similarly but in different spheres of operation. Whereas the treasury system pertains to the control of receipts and disbursements of governments on all levels, the cash control system governs the receipts and disbursements of government organs. In both cases, public funds are involved, and the responsible executive agency is the bank. One distinction arises in that the bank administers the cash control system in its own right, but functions with reference to the treasury system only as the fiscal agent of the treasury. Nevertheless, the general purposes and responsibilities of the two systems are identical, and they constitute a vital part of the state's fiscal program. In addition to the safekeeping of cash deposits and the handling of cash transactions, the cash control program is assigned the tasks of conserving the utilization of cash, promoting the clearance system, and regulating the flow of currency according to plan.

Cash control work consists of two major phases. The first is the centralization of cash in the state bank, and consequently all cash belonging to the various organs must be deposited in the bank. The second is the planning of cash transactions so that cash may be used sparingly and be subject to effective regulation. Cash control work itself is progressing according to plan. The Government Administration Council has announced that the task of centralizing cash had been basically completed by the end of 1950, and that budget planning of cash receipts and disbursements has made good progress to date in 1951.

16-3. Amount of Cash Each Organ May Retain

Provisions in the "Regulations on the Implementation of Currency Control" stipulate that all cash and drafts of the various organs must be deposited in the bank or a bank agency on the day of receipt, with the exception of a specified sum allotted for daily miscellaneous expenses. In special cases and with the bank's approval, organs may delay the time of deposit until noon of the following day. The procedure for depositing funds is discussed in Section 16-18 below.

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The amount of cash a given organ may retain in its possession is determined jointly by the local bank and committee of finance and economics. A given organ may retain currency sufficient to cover 3 days' miscellaneous expenses in areas where there are banks or bank agencies; and in areas where there are no banking facilities, an organ may retain currency amounting to one month's miscellaneous expenses. All funds retained by the various organs are subject to examination by their respective banks. Should irregularities be discovered, the bank may either suggest remedies or submit a report to higher levels.

16-4. Account Transfers and Cash Payments

To restrict the use of cash to a minimum, government organs must carry on their commercial transactions with state-operated enterprises and cooperatives whenever possible, and use the method of account transfers to settle mutual obligations. The procedure for handling account transfers will be discussed in Section 16-14 below. Aside from the use of cash (or currency) to meet daily miscellaneous expenses, committees of finance and economics may approve the following cash transactions:

- (1) Business transactions with privately operated enterprises
- (2) Business transactions with private individuals living in urban or rural areas
- (3) Wage payments
- (4) Travel expenses

16-5. Clearance System

Under the clearance system, business obligations between various organs are discharged not by means of cash or drafts but by means of the bank transferring payment from the account of the debtor to the account of the creditor. Although this system makes use of the account transfer method, it avoids the use of bank drafts and entrusts the bank with the function of clearing the accounts of the parties to the transaction.

The basic significance of this system lies in the fact that it enables the state bank to function as the general accounting agency for all units (government organs and economic organizations) and as the center for clearing obligations between these units. Since transactions between these units are cleared through the bank, this ensures that all payments will be made in the correct amount and at the proper time. Since the bank supervises the settlement payments between units, it is in a position to oversee the execution of budgets, the carrying out of contracts, the completion of economic construction plans, and the fulfillment of quotas by government organs and economic organizations.

16-6. Meaning and Types of Budget Plans for Currency

The budget plan for currency is an important feature of the currency control program. To effect a planned receipts and expenditures system, each organ must compile a monthly or quarterly budget plan for currency which designates the method of payment for each transaction as cash or bank clearance. After the plan has been approved by the appropriate committee of finance and economics, copies are forwarded to the agency having jurisdiction over the organ and to the bank to enable them to supervise its execution. In brief, the budget plan for currency is a detailed plan showing itemized receipts and expenditures in business operations or budget estimates for each organ; at the same time it supplies

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the bank with data regarding the organ's deposits, credits, clearance, and cash requirements. On the basis of this plan, the bank supervises receipts and disbursements, undertakes the clearing of obligations, and considers loans. In its role as supervisor of the operations of organs and enterprises, the bank helps them accelerate their capital turnover, execute their budgets, and fulfill their quotas under the national economic and financial plan.

Budget plans for currency are of two types: the unit currency budget plan prepared by each independent accounting unit, whether it be a government organ, an economic enterprise, or a cooperative; and the consolidated currency budget plan prepared by the banks at all levels. In the sections which follow, the compilation, approval, and execution of unit currency budget plans prepared by government organs will be discussed in detail. Other types of budget plans will be discussed only briefly.

16-7. Drafting and Approval of the Unit Budget Plan for Currency

Government organs which prepare and execute unit currency budget plans fall into the following administrative categories:

- (1) Organs attached to special administrative office, hsien, and municipal governments. After the periodic drafting of a unit currency budget plan in accordance with budget estimates, the plan is submitted to the appropriate committee of finance and economics for approval, and a copy is sent to the branch of the bank on the corresponding level of government. Once approval has been granted, the organs and banks concerned are notified, and supervised execution of the plan begins.
- (2) Organs attached to provincial and municipal governments and to military districts, and also their subordinate organs (excluding those directly under the central government). The unit plan is first submitted to the agency having jurisdiction over the organ for investigation and approval, and is then sent to the appropriate committee of finance and economics. On notification of approval by the committee, the local branch bank undertakes supervision of receipts and expenditures in accordance with its copy of the currency budget plan.
- (3) Organs attached to administrative area governments and regional military districts, and also their subordinate organs (excluding those directly under the central government). The budget plan is submitted to the agency having jurisdiction over the organ concerned with prior investigation and approval, and is then sent to the appropriate committee of finance and economics. On notification of approval by the committee, the local branch bank undertakes supervision of the execution of the plan.
- (4) Organs directly under the central government. The budget plan passes through the administrative hierarchy until it reaches the central ministry having jurisdiction over the organ concerned. After this ministry investigates and approves the plan, it is submitted to the Ministry of Finance for final approval. On notification of approval, the local bank of the organ concerned supervises the plan's execution.

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(5) Combat military forces and their subordinate military units. Currency budget plans for military units are submitted to higher-level supply or rear service departments for approval. The plans are then forwarded to local banks or to banks attached to military units which supervise the actual receipt and expenditure of currency.

The quarterly or monthly currency budget plans must be submitted 15 days in advance to the committee of finance and economics, the supply department, the rear services department, or the Ministry of Finance, as the case may be, and the reviewing body must return the plan within 10 days to the organ concerned. Committees of finance and economics must consider the ratio of cash to bank clearances in each plan and ascertain that receipts and expenditures of currency are in balance before granting approval. It is forbidden for one organ to draw on the currency allotment of another organ.

16-8. Regulations Regarding Compilation of the Unit Budget Plan for Currency

Unit currency budget plans are to be drafted in such a way as to maximize the use of the organ's own capital and of bank clearances and minimize the use of credit and cash. When a government organ deals with a single bank in one locality, each of its independent accounting units must draft separate unit currency budget plans. However, when one independent accounting unit has subdivisions in scattered localities, each subdivision must draft a separate budget plan for submission to the branch bank in its immediate locality.

Unit currency budget plans are drawn up on both a quarterly and monthly basis. However, the quarterly plans are broken down to show monthly receipts and expenditures and monthly transactions in cash and bank transfers.

Budget plans are compiled in units of 1,000 yuan. Any transactions in foreign currency or goods must be computed in terms of yuan. All currency receipts and expenditures, aside from public grain payments, must be cleared through the bank. With the exception of daily miscellaneous expenditures for which cash may be used, all transactions between organs will be planned as bank transfers. All transactions with privately operated enterprises or private individuals, together with payments for wages, travel expenses, etc., will be planned as cash disbursements. The budget plan must provide for an equilibrium between receipts and disbursements, and the bank is not responsible for overdrafts. In cases where revenues exceed expenditures, the surplus must be deposited in the bank. When expenditures exceed revenues or revenue lags behind expenditure, the organ must apply to the bank for short-term credit.

Government organs in general compile their unit currency budget plans on the basis of their over-all budgets, assignments given by superior organs, and actual receipts and disbursements of the previous period. All income not provided for in the over-all budget, such as income from production, must be incorporated. Government organs or military units which carry on production as a matter of course must draft separate unit currency budget plans.

Military organs, combat forces, and public security departments, when drafting unit currency budget plans, are not required to list itemized receipts and expenditures but only to indicate the totals of each from currency and bank clearance. Currency budget plans of other departments concerned with national defense are drawn up in similar fashion and submitted to their superior organs and respective committees of finance and economics for approval.

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Internal transactions within single accounting units which do not involve the bank need not be entered in the currency budget plan.

On receiving its copy of the unit currency budget plan, the bank must ascertain whether the itemized receipts and expenditures are all-inclusive, whether the items are properly correlated with regular accounting items, whether the totals of receipts and expenditures are in balance, whether the bank transfers and cash transactions are properly differentiated, and whether the currency resources are being used rationally. The bank passes along any suggestions or comments to the organ submitting the plan, and reports them simultaneously to the appropriate committee of finance and economics.

16-9. Receipt and Expenditure Items in the Unit Currency Budget Plan

In compiling unit currency budget plans, receipts and expenditures of government organs are classified under one group of headings and those for economic enterprises and cooperatives under another. In general, the receipts and expenditures of government organs are itemized as follows:

1. Receipts

- (1) Previous period's treasury cash -- any cash in treasury left over from previous period; enter as cash.
- (2) Previous period's bank balance; enter as bank transfer.
- (3) Treasury allocations -- any funds received directly from the treasury.
- (4) Allocations from superior organs -- any funds, temporary payments, subsidies, etc. received from superior organs.
- (5) Remittances from subordinate organs -- any funds payable to the treasury forwarded by subordinate organs, such as tax payments.
- (6) Tax receipts -- any taxes belonging to central or local governments (for use only by tax-collection agencies).
- (7) Receipts of enterprise profits and depreciation payments; enter as bank transfers (for use only by financial organs).
- (8) Receipts from government bonds.
- (9) Other receipts -- miscellaneous receipts, such as income from tuition fees, sale of waste products, etc.

2. Expenditures

- (1) Wage payments -- any labor expense, such as wages, salaries, (including all disbursements under the supply system), contract labor payments, etc.
- (2) Allocations to subordinate organs -- any funds, temporary payments, subsidies, etc. allotted to subordinate organs.
- (3) Administrative expenditures -- any disbursements for office supplies, water and electricity, building repairs, miscellaneous expenses, etc.

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- (4) Allowances and welfare payments -- any disbursements for workers' allowances, welfare, gratuities, insurance, health, culture, etc.
- (5) Basic construction expenditures -- any disbursements for construction of buildings and any disbursements of government funds for basic construction.
- (6) Expenditures for repairs -- any disbursements for extensive repairs of buildings, warehouses, etc.
- (7) Remittances to the treasury -- any funds paid in, such as taxes.
- (8) Other expenditures -- miscellaneous expenses.
- (9) This period's treasury cash -- any cash in treasury accumulated during this period; enter as cash.
- (10) This period's bank balance; enter as bank transfer.
- (11) Investment in various enterprises -- any capital allocated to economic enterprises; enter as bank transfer (for use only by financial organs).
- (12) Principal and interest payments on government bonds.

16-10. Correlation of Unit Currency Budget Plan Items and Accounting Items

The above itemization of receipts and expenditures is appropriate for use only in unit currency budget plans. This system of itemization differs from those employed in government budget accounting and in regular accounting. Consequently, it is necessary for all government organs and enterprises to make the proper correlation between budget and regular accounting items, on the one hand, and the unit currency budget plan items, on the other hand. As evidence of the correct correlation of accounts and handling of funds, each unit must fill out and submit periodically an "Account Correlation Table."

An example of such a table prepared by an administrative or operating organ is as follows:

Account Correlation Table				
Unit preparing table:	Administrative or Operating Organ	Date	Year	Month Day
Item	Corresponding Account	Explanation		
Receipts				
Previous period's treasury cash	Cash on hand	Opening balance		
Previous period's bank balance	Bank deposits	Opening balance		
Treasury allocations	Allotted administrative (operating) funds	This period's allocation		

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<u>Item</u>	<u>Corresponding Account</u>	<u>Explanation</u>
Allocations from superior organs	Administrative (operating) funds received from superior organs	This period's allocation
Remittances from subordinate organs	Funds distributed to subordinate organs	Fund surplus paid in
Other receipts	Extrabudgetary income	
Expenditures		
Wage payments	Wages and cost-of-living expenses	
Allocations to subordinate organs	Funds distributed to subordinate organs	
Administrative expenditures	Miscellaneous office, travel, transportation, repair, equipment, insurance, conference, operating, and other expenses	
Allowances and welfare payments	Supplementary wages and family allowances	
Basic construction expenditures	Basic construction funds	Construction and purchase of fixed assets
Expenditures for repairs	Repair expenses	Any extensive repairs not entered under administrative expenditures
Remittances to the treasury	Allotted administrative (operating) funds and administrative (operating) funds received from superior organs	Fund surplus paid in
Other expenditures	Operating subsidies, extra-budgetary expenditures, etc.	Miscellaneous expenses
This period's treasury cash	Cash on hand	Closing balance
This period's bank balance	Bank deposits	Closing balance

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16-11. Example of Compilation of Unit Currency Budget Plan

The essential steps in the compilation of the unit budget plan for currency have been discussed in detail in the preceding sections of this chapter. The unit budget plan, with all items designated as cash or account transfers, must be compiled in accordance with the annual budget, the financial receipts and expenditures of the previous period, and the estimates of currency needs for the plan period. After the plan has been drafted, it must be examined carefully to eliminate errors so that it may be effectively executed. For illustrative purposes, the unit currency budget plan of the Ministry of Public Health, based on the 1952 first-quarter combined revenue and expenditure budget statements and other pertinent information given in Sections 6-8 and 6-9 above, is presented as follows:

Unit Budget Plan for Currency for the First Quarter of 1952

Name of Unit: Ministry of Public Health

Funds deposited with:
Peiping Branch of the
People's Bank of China

Name of Superior Organ: _____

Account No: 18751

Monetary Unit: 1,000 yuan

Amount of Receipts						
Receipts	Plan Figure			Approved Figure		
	Cash	Account Transfers	Subtotal	Cash	Account Transfers	Subtotal
Previous period's treasury cash	500		500			
Previous period's bank balance		2,500	2,500			
Treasury allocations		5,097,210	5,097,210			
Other receipts	45,500		45,500			
Total	46,000	5,099,710	5,145,710			

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<u>Expenditures</u>	<u>Amount of Expenditures</u>					
	<u>Plan Figure</u>			<u>Approved Figure</u>		
	<u>Cash</u>	<u>Account Transfers</u>	<u>Subtotal</u>	<u>Cash</u>	<u>Account Transfers</u>	<u>Subtotal</u>
Wage payments	101,849	10,000	111,849			
Allocation to subordinate units		3,645,905	3,645,905			
Administrative expenditures	362,000	580,200	942,200			
Allowances and welfare payments		92,256	92,256			
Basic construction expenditures		150,000	150,000			
Expenditures for repairs		125,000	125,000			
Remittance to the treasury		42,500	42,500			
Other expenditures	2,000	30,000	32,000			
This period's treasury cash	1,500		1,500			
This period's bank balance		2,500	2,500			
Total	467,349	4,678,361	5,145,710			

16-12. Execution of Unit Budget Plan for Currency

After a unit budget plan for currency has been approved according to prescribed methods, it is submitted to the appropriate bank for supervision of its execution. The validity of a unit budget plan is limited to the month or quarter for which it is drafted. However, any accounts receivable and accounts payable which cannot be settled in the plan period must be reported to the bank in a separate report attached to the budget plan for the next period. After prior approval by the bank, these accounts are then incorporated into the new budget plan. The receipt and expenditure items in a given budget plan may not be altered. If a given budget plan is in the process of approval, the organ concerned may meet its financial obligations from a specially provided fund approved by the bank, which may not exceed one third of its prospective budget plan for currency. When the new budget plan has been approved, the amount expended is then deducted from it. If the budget plan of an organ proves to be insufficient for its operations, that organ must submit a supplementary plan. The procedure for the drafting, examination, and approval of this plan is the same as that outlined in Section 16-7 above.

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If, contrary to plan, a unit accumulates surplus funds in its account, it may not utilize this surplus for additional expenditures. However, if receipts are in excess of plan, it is still necessary to deposit them promptly in the People's Bank and present an explanation for the revenue surplus.

In carrying out its currency budget plan, each organ must maintain an up-to-date set of account books showing the current balance of funds on hand. Since currency budget plan items are not the same as budget and accounting items, it is necessary to designate the plan item and corresponding accounting item in each account book. To facilitate the checking of the plan's execution, each organ maintains a separate account book for each plan item. This account book, known as the "Currency Budget Plan Transactions Register," is drawn up according to the following format:

Currency Budget Plan Transactions Register

Transactions Register										
Plan item		Corresponding account						Year		
								Month		
<u>Date</u>	<u>Check or Draft</u>	<u>Approved Amount</u>			<u>Actual Receipts (or Expenditures)</u>			<u>Approved Balance</u>		
		<u>Cash</u>	<u>Account Transfers</u>	<u>Sub-total</u>	<u>Cash</u>	<u>Account Transfers</u>	<u>Sub-total</u>	<u>Cash</u>	<u>Account Transfers</u>	<u>Sub-total</u>

In the execution of the currency budget plan, the methods of handling receipts and disbursements and, specifically, the methods of settling obligations are determined by the People's Bank. The different types of settlement payments are discussed in the sections which follow. The bank is empowered to make periodic checks of budget plan execution and to make suggestions or report to a higher level should irregularities be discovered.

At the close of each monthly or quarterly period, each branch of the People's Bank must compile a statement showing the actual currency receipts and expenditures totals for all units maintaining accounts with it. Copies of this statement are forwarded to the local committee of finance and economics and to a higher-level bank. The statements of all banks are then incorporated into a combined report for the People's Bank of China, which is submitted by the main office of the bank to the Committee of Finance and Economics of the Central People's Government for examination and filing.

16-13. Establishment of Current and Clearing Accounts

As provided in the "Regulations on the Implementation of Currency Control," all budget-financed government organs or military units are obliged to keep their funds in current accounts in the state bank. All state-operated enterprises or organs engaged in economic activity must hold their funds in clearing accounts in the state bank. These accounts are set up on the basis of one account for each independent accounting unit. If a single organ or enterprise has more than one accounting unit, it may establish more than one bank account with the bank's concurrence.

With certain exceptions discussed above, all transactions, whether local, national, or international, must be cleared through the bank, and no direct payment is allowed. All units (government organs or economic enterprises) must maintain sufficient funds in their accounts for the bank to settle their obligations promptly and according to plan.

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A copy of all business contracts between units must be furnished the bank. In the event that a business transaction does not conform with the original contract, the bank will refuse to make a settlement payment.

16-14. Special Checks and Transfer Checks

According to the regulations of the People's Bank, organs which maintain their funds in current accounts make use of special checks to obtain cash or to authorize the bank to make transfer payments from their accounts. Since the special check serves a dual purpose, the organ must draw a double line through the upper left corner of the check to designate a transfer payment. The check is made up of two sections: the check itself, which serves as a voucher for the bank to make cash or transfer payments; and the counterfoil, which is retained by the organ preparing the check.

The special check is drawn up according to the following format:

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COUNTERFOIL OF SPECIAL CHECK DRAWN ON THE
XX BRANCH OF THE PEOPLE'S BANK OF CHINA

ACCOUNT NO:

CHECK SERIAL NO:

PLAN EXPENDITURE ITEM

ACCOUNTING ITEM

PURPOSE OR USE OF EXPENDITURE

PAYEE

PREVIOUS DAY'S BALANCE

TODAY'S DEPOSITS

AMOUNT OF CHECK

CURRENT BALANCE

DATE

EXPLANATION:

(1) TRANSFER PAYMENT CHECKS MUST BE NEGOTIATED WITHIN 3 DAYS OF PAYMENT.

(2) SPECIAL CHECKS MUST BE MARKED WITH A DOUBLE LINE THROUGH THE UPPER LEFT CORNER.

(3) IF THE PAYING ORGAN IS NOT REQUIRED BY LAW TO COMPILE AN ITEMIZED RECEIPTS AND EXPENDITURE PLAN, IT NEED NOT FILL IN THE "EXPENDITURE ITEM" AND "PURPOSE OR USE OF EXPENDITURE" COLUMNS.

(4) THE PAYER'S SEAL MUST MATCH THAT ON FILE WITH THE BANK.

SPECIAL CHECK DRAWN ON THE XX BRANCH
OF THE PEOPLE'S BANK OF CHINA

DATE ISSUED YEAR MONTH DAY

ACCOUNT CONTRA ACCOUNT CHECK NO ACCOUNT NO

PLAN EXPENDITURE ACCOUNTING ITEM PAYEE AMOUNT OF PAYMENT

YEAR MONTH

PURPOSE OR USE OF EXPENDITURE

TO THE PEOPLE'S BANK OF CHINA (XX BRANCH):
I REQUEST THAT THE ABOVE SUM BE CHARGED TO MY ACCOUNT.

PAYER'S SEAL

PAID IN FULL THIS DATE YEAR MONTH DAY

BANK ACCOUNTING BUSINESS CASHIER AUDIT
MANAGER DEPARTMENT DEPARTMENT DEPARTMENT DEPARTMENT

- 13 -

C-O-N-F-I-D-E-N-T-I-A-L
NOT RELEASABLE TO FOREIGN NATIONALS

50X1-HUM

C-O-N-F-I-D-E-N-T-I-A-L
NOT RELEASABLE TO FOREIGN NATIONALS

50X1-HUM

Transfer checks are used only in handling transfer payments between different current accounts and between current and clearing accounts. This check is made out by the payer (paying unit) and sent to the payee (receiving unit), who takes it to the bank as an authorization for the transfer of payment to its account. Transfer checks cannot be used to obtain cash and they cannot be negotiated by a third party.

The transfer check is drawn up according to the following format:

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C-O-N-F-I-D-E-N-T-I-A-L
NOT RELEASABLE TO FOREIGN NATIONALS

50X1-HUM

C-O-N-F-I-D-E-N-T-I-A-L
NOT RELEASABLE TO FOREIGN NATIONALS

50X1-HUM

COUNTERFOIL OF TRANSFER CHECK DRAWN ON THE
XX BRANCH OF THE PEOPLE'S BANK OF CHINA

ACCOUNT No:

CHECK SERIAL No:

PLAN EXPENDITURE ITEM

ACCOUNTING ITEM

PURPOSE OR USE OF EXPENDITURE

PAYEE

PREVIOUS DAY'S BALANCE

TODAY'S BALANCE

AMOUNT OF CHECK

CURRENT BALANCE

DATE

TRANSFER CHECK DRAWN ON THE XX BRANCH
OF THE PEOPLE'S BANK OF CHINA

DATE ISSUED YEAR MONTH DAY

ACCOUNT _____ CONTRA ACCOUNT _____ CHECK No _____ ACCOUNT No _____

PLAN EXPENDITURE ACCOUNTING ITEM PAYEE AMOUNT OF PAYMENT

PURPOSE OR USE OF EXPENDITURE

TO XX BRANCH OF THE PEOPLE'S BANK OF CHINA:
I REQUEST THAT THE ABOVE SUM BE CHARGED TO MY ACCOUNT.

PAID IN FULL THIS DATE YEAR MONTH DAY

PAYER'S SEAL

BANK ACCOUNTING BUSINESS CASHIER AUDIT RECORD
MANAGER DEPARTMENT DEPARTMENT DEPARTMENT DEPARTMENT

EXPLANATIONS: (1) TRANSFER CHECKS MUST BE USED FOR ALL TRANSACTIONS BETWEEN DIFFERENT CURRENT ACCOUNTS AND BETWEEN CURRENT ACCOUNTS AND CLEARING ACCOUNTS. FOR TRANSFER PAYMENTS TO BE CLEARED THROUGH BANKS IN OTHER LOCALITIES, AND FOR EMERGENCY REMITTANCES.

(2) TRANSFER CHECKS MUST BE NEGOTIATED WITHIN 3 DAYS OF PAYMENT.

(3) ALL ENTRY BLANKS MUST BE FILLED IN ACCORDING TO LAW. THE PAYER'S SEAL MUST MATCH THAT ON FILE WITH THE BANK.

- 15 -

C-O-N-F-I-D-E-N-T-I-A-L
NOT RELEASABLE TO FOREIGN NATIONALS

50X1-HUM

C-O-N-F-I-D-E-N-T-I-A-L
NOT RELEASABLE TO FOREIGN NATIONALS

50X1-HUM

Books of special checks and transfer checks are obtained from the People's Bank. Each unit must acknowledge receipt of these checks by filling out the following form:

Receipt for XX Checks

Received this date from the XX Branch of the People's Bank of China
xx checkbooks containing checks numbered from _____ to _____.

Total number of checks

Date Year Month Day

(Seal of receiving unit)

16-15. Settlement Drafts

According to the regulations of the People's Bank, all business units (economic enterprises) must keep their funds in clearing accounts in the bank. As provided in clearing agreements signed between these units and the bank, all transactions between different clearing accounts must be handled by means of settlement drafts. These drafts are filled out by the payer (paying unit) and are either forwarded directly to the bank of its account or to the payee (receiving unit) for submission to the bank. The settlement draft authorizes the bank to make payment by means of a transfer from the account of the payer to the account of the payee. It does not authorize payment in cash nor can the draft be transferred to the account of a third party.

The settlement draft is drawn up according to the following format:

Settlement Draft

Copy 3 (Receipt Voucher)

Date of issue: Year Month Day Date of transfer: Year Month Day

Account number of paying unit:

(Account) Contra Account Payment certificate number

As authorized by payer, payment in the below amount has been transferred to the account of payee.

Name of payer	Plan expenditure item of payer	Account item	Year Month
---------------	-----------------------------------	--------------	---------------

Name of payee	Plan receipt item of payee	Payee's bank of account
---------------	-------------------------------	----------------------------

Payee's account
number

Amount of transfer (in yuan)

Purpose of transfer

Bank	Accounting	Business	Audit	Records
Manager	Department	Department	Department	Department

- 16 -

C-O-N-F-I-D-E-N-T-I-A-L
NOT RELEASABLE TO FOREIGN NATIONALS

50X1-HUM

C-O-N-F-I-D-E-N-T-I-A-L
NOT RELEASABLE TO FOREIGN NATIONALS

50X1-HUM

Settlement drafts are made out in quadruplicate. The record copy is retained by the payer for its files. The payment order copy is retained by the bank as a payment voucher. The receipt voucher copy is also kept by the bank as evidence that the payment has been transferred to the payee's clearing account. The information copy, with the bank's seal attached thereto, is forwarded to the payee as proof that its account has been credited with the amount on the draft. The format of the receipt voucher copy is presented above.

In issuing and processing settlement drafts, the following points should be noted:

- (1) All entry blanks must be filled in; erasures or alterations are forbidden.
- (2) Payment cannot be in excess of the amount deposited in the bank nor can it exceed the approved plan figure.
- (3) The payer's seal must match that on file with the bank.
- (4) The settlement draft cannot be used for any purpose other than that indicated and must be cleared through the bank within 3 days of payment.
- (5) Settlement drafts, together with checks, must be filed in proper sequence after their use.

Settlement draft books are obtained from the People's Bank. It is necessary on each occasion for the recipient to make out a receipt slip similar to that in use for checkbooks. (See Section 16-14 above.)

16-16. Authorized Payment and Authorized Collection

Business transactions between organs or units may be classified as intratown or intertown, depending on whether the parties are in the same or different towns. The methods of settlement described in Sections 16-14 and 16-15 above are employed in intratown payments. The method of handling intertown payments is discussed briefly in this section.

Intertown payments are of two types, as follows:

- (1) Authorized payment. When a unit's currency budget plan and contracts call for the expenditure of funds in another town, it must send a transfer check to the bank of its account authorizing the bank to make payment by means of an ordinary bank draft. Once the bank draft has been transmitted to a correspondent bank in the other town, an account is established from which one or a series of payments is made under the supervision of the correspondent bank. When the final payment is made, the account is liquidated. Only in those cases provided by law will disbursements be made in cash.

- 17 -

C-O-N-F-I-D-E-N-T-I-A-L
NOT RELEASABLE TO FOREIGN NATIONALS

50X1-HUM

C-O-N-F-I-D-E-N-T-I-A-L
NOT RELEASABLE TO FOREIGN NATIONALS

50X1-HUM

(2) Authorized collection. When a unit's currency budget plan and contracts call for the collection of funds in another town, it can authorize the People's Bank to serve as its collection agent. Once the funds have been collected, they are credited to the account of the payee. The bank shall employ the same method in handling these funds as it uses for ordinary bank collections.

In addition to the two methods of settlement described above, the People's Bank may employ other clearing procedures in accordance with the specific circumstances and actual requirements of the units involved.

16-17. Deductions for Treasury Claims and Accounts Payable

Funds payable to the state treasury by a given unit are deducted from its account by the People's Bank on notification by the appropriate finance department that payment is due (and simultaneous notification to the unit concerned). However, wage payments shall take precedence over treasury claims.

Funds due a given unit from the state treasury are transferred to its account in the People's Bank in accordance with its approved budget and under the director of the Ministry of Finance. The bank supervises the expenditure of the funds on the basis of a copy of the unit's budget forwarded by the Ministry of Finance and the approved unit currency budget plan.

At the date a payment is due one unit from another unit in settlement of a business obligation, if payment has not been made or, if made, has not yet been cleared, the People's Bank may transfer the amount in question from the payer's account to the payee's account. However, the bank's authority to effect account transfers of this type is dependent on prior authorization in the business contract signed by the units concerned. Moreover, the bank may not deduct funds for this purpose if by so doing it would deprive the payer of funds needed for wage payments or treasury claims.

If funds payable by an organ are not paid within the prescribed period, the penalty for such failure shall be .05 percent of the outstanding balance per day, the penalty fund to be awarded to the payee. Other remedies may be substituted in business contracts.

16-18. Deposit Slips and Statements of Account

According to the regulations of the People's Bank, units which have established current or clearing accounts must submit special deposit slips with all deposits of currency or checks. Each deposit slip is composed of two sections: the slip proper, which is retained by the bank for its accounting records; and the record copy, which is kept by the depositor.

The deposit slip is drawn up according to the following format:

- 18 -

C-O-N-F-I-D-E-N-T-I-A-L
NOT RELEASABLE TO FOREIGN NATIONALS

50X1-HUM

C-O-N-F-I-D-E-N-T-I-A-L
NOT RELEASABLE TO FOREIGN NATIONALS

50X1-HUM

DEPOSIT SLIP OF XX BRANCH OF THE PEOPLE'S BANK OF CHINA

ACCOUNT _____ DATE _____ YEAR _____ MONTH _____ DAY _____
CONTRA ACCOUNT _____ DEPOSITOR'S NAME _____

PLAN RECEIPT ACCOUNTING SOURCE OF NAME OF
ITEM _____ ITEM _____ REVENUE _____ PAYER _____

COMPOSITION OF DEPOSIT YEAR MONTH AMOUNT

AMOUNT OF DEPOSIT (IN YUAN)
CASH _____ CHECK DRAWN _____ CHECK
AGAINST THIS BANK _____ DRAWN
AGAINST ANOTHER BANK _____

TOTAL AMOUNT (IN YUAN)

BANK ACCOUNTING BUSINESS CASHIER AUDIT RECORDS
DEPART- DEPART- DEPART- DEPART-
MENT MENT MENT MENT

DEPOSIT SLIP

RECORD COPY OF DEPOSIT SLIP OF THE PEOPLE'S BANK OF CHINA

ACCOUNT _____ DATE _____ YEAR _____ MONTH _____ DAY _____
ACCOUNT NO _____ DEPOSITOR'S NAME _____

PLAN RECEIPT ACCOUNTING SOURCE OF NAME OF
ITEM _____ ITEM _____ REVENUE _____ PAYER _____

COMPOSITION OF DEPOSIT YEAR MONTH AMOUNT

CASH _____
CHECK DRAWN AGAINST THIS BANK _____
CHECK DRAWN AGAINST ANOTHER BANK _____

TOTAL AMOUNT (IN YUAN)

- 19 -

C-O-N-F-I-D-E-N-T-I-A-L
NOT RELEASABLE TO FOREIGN NATIONALS

50X1-HUM

C-O-N-F-I-D-E-N-T-I-A-L
NOT RELEASABLE TO FOREIGN NATIONALS

50X1-HUM

At the close of each month, the bank sends each unit a statement of account recording the month's transactions and closing balance. The organ or unit concerned is responsible for notifying the bank of any errors in its statement within 5 days by means of a return slip attached to the statement. Otherwise, the statement is presumed to be correct.

The statement of account is drawn up according to the following format:

- 20 -

C-O-N-F-I-D-E-N-T-I-A-L
NOT RELEASABLE TO FOREIGN NATIONALS

50X1-HUM

C-O-N-F-I-D-E-N-T-I-A-L
NOT RELEASABLE TO FOREIGN NATIONALS

50X1-HUM

STATEMENT OF ACCOUNT

PEOPLE'S BANK OF CHINA (XX BRANCH)

(XX) STATEMENT OF ACCOUNT

DEPOSITOR'S NAME		ACCOUNT NO	ADDRESS	DATE	YEAR	MONTH	TELEPHONE NO	SUPERIOR ORGAN	INTEREST RATE
YEAR	MONTH	DAY	REMARKS	SETTLEMENT DRAFT NO	TRANSFER CHECK NO	SPECIAL CHECK NO	CREDIT ACCOUNT CASH TRANSFER	DEBIT ACCOUNT CASH TRANSFER	BALANCE

RETURN SLIP
TO THE PEOPLE'S
BANK OF CHINA:

THIS CERTIFIES THE
BALANCE SHOWN IN
YOUR STATEMENT IS
CORRECT AS STATED.

SIGNATURE AND
SEAL OF DEPOSIT-
TOR

DATE

NOTE: THIS RE-
TURN SLIP MUST BE
RETURNED WITHIN 5
DAYS AFTER RECEIPT;
OTHERWISE, THE
ACCOMPANYING STATE-
MENT IS PRESUMED
TO BE CORRECT.

- E N D -

- 21 -

C-O-N-F-I-D-E-N-T-I-A-L
NOT RELEASABLE TO FOREIGN NATIONALS

50X1-HUM